

**BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN**

Strategic Energy Assessment 2022

5-ES-108

**COMMENTS OF THE ILLINOIS ENERGY PROFESSIONALS ASSOCIATION
ON THE DRAFT STRATEGIC ENERGY ASSESSMENT 2022**

The Illinois Energy Professionals Association (“ILEPA”) appreciates the opportunity to submit comments on the Draft Strategic Energy Assessment 2022 (“Draft SEA 2022”) of the Public Service Commission of Wisconsin (“Commission”). ILEPA offers these comments in the spirit of advancing discussion of policy options that will serve the interests of Wisconsin electricity consumers while according proper attention to the concerns of Wisconsin’s incumbent vertically integrated monopoly electric utilities. ILEPA respectfully urges the Commission to address, as an essential element of a *strategic assessment*, the role of *effective competition* at the retail level as an *innovative retail option* that can materially *mitigate electric rate increases*.¹

Competitive electricity retail choice is operating fully and well in fourteen regulatory jurisdictions accounting for one-third of all electricity consumption in the United States.² Limited choice – hampered by a variety of barriers and therefore with predictably limited

¹ All of the italicized words are taken from key phrases in the Draft SEA 2022.

² Connecticut, Delaware, District of Columbia, Illinois, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Ohio, Pennsylvania, Rhode Island and Texas.

benefits for consumers – is in operation in a handful of other states.³ In all these states, whether with full or limited choice, delivery service and prices are maintained as regulated functions and reliability and generation investment performance remain on par with that in traditional monopoly states. In other words, the various imaginary horrors predicted as consequences of competitive supply and retail customer choice have not materialized.⁴

Illinois Energy Professionals Association (ILEPA)

ILEPA, founded in 2007, is well situated to provide commentary on the merits of effective competition at the retail level. ILEPA's twenty-five full members are consultants and advisers⁵ to industrial, commercial, government, non-profit and municipal residential aggregation electricity customers constituting approximately 75% of competitive electricity load in Illinois. ILEPA members also advise and represent electricity customers in customer choice states and in states with natural gas customer choice, of which Wisconsin is one.⁶

ILEPA, as an organization and through its individual members, has witnessed competitive retail electricity markets delivering accurate and timely price signals to customers, eliciting offerings for customers that match their individual needs and usage patterns, utilizing information to facilitate better energy decisions by customers and lodging business risk where it can best be managed. Competitive markets do all of these things in a manner superior to that

³ Arizona, California, Michigan, Montana, Nevada, Oregon and Virginia.

⁴ For a more in-depth review of relative performance of customer choice and monopoly states see *Evolution of the Revolution: The Sustained Success of Retail Electricity Competition*, by Philip R. O'Connor and Erin O'Connell-Diaz, COMPETE Coalition, July 2015, <http://competecoalition.com/resources/report>

⁵ ILEPA members and other non-supplier customer adviser and representatives are certified and regulated by the Illinois Commerce Commission <https://www.icc.illinois.gov/Electricity/authorities/ABC.aspx>

⁶ More information about ILEPA can be found at our website <http://ilepa.org/about.aspx>

which can be achieved through traditional monopoly. The quality and professionalism of utility management and regulators are not the factors that make the difference; rather, it is the regulated monopoly format itself. It is inherently incapable of responding to prevailing conditions that are distinctly different from those for which the regulated vertical monopoly was originally designed.

WISCONSIN'S POSITION IN THE MARKET

The Draft SEA 2022 presents a professional and careful review of Wisconsin's electricity situation. The narrative, however, does not do justice to Wisconsin's disadvantageous electricity price situation. In the introduction to the "Rates Trends Among Customer Classes" section, the Draft SEA 2022 merely notes "The trend in Wisconsin rates generally matched those in the surrounding states."⁷ Tables 9 and 10 in the Draft SEA 2022 show that Wisconsin's average industrial and commercial rates in 2015 were the highest among the twelve states in the Midwest region in the comparison. The tables also show that Wisconsin has held the highest or second highest price position in the twelve state group since 2007. This performance is a far cry from attaining the objective of having "reasonable prices" that "ensure that Wisconsin remains competitive in a global marketplace."

Starting in the mid- and late 1990s, many states, including Wisconsin, started considering alternatives to traditional vertical monopoly. Illinois opted for competition and customer choice while Wisconsin, in what must have been thought the cautious and prudent course, chose to adhere to the conventional model. Illinois enacted its customer choice

⁷ Draft SEA 2022, p31

legislation in 1997, when Illinois average rates were considerably higher than those of Wisconsin. By 2015, rates in Wisconsin were considerably higher than in Illinois. Illinois and Wisconsin have changed places. Illustration 1 in the Appendix shows the radical change in relative positions of Wisconsin and Illinois in terms of average delivered prices by customer class from 1997 to 2015.⁸ For example, whereas in 1997 the average delivered industrial price in Illinois was 42.2% higher than the Wisconsin price, in 2015 the average delivered industrial price in Wisconsin was 22.4% higher than in Illinois. This represents a massive, policy-driven change.

Illustrations 2 through 5 in the Appendix show that Wisconsin had the highest percentage increase in average residential, commercial and all-sector prices and the second highest percentage increase in average industrial prices in the 49 contiguous U.S. jurisdictions. Illustrations 2 through 5 also show that from 1997 to 2015, Illinois had the lowest percentage increase in average residential, commercial, industrial and all-sector prices. Illustrations 2 through 5 show that the fourteen retail competition jurisdictions tend toward the lower end of the percentage increase ranking.

Any number of factors can be cited to explain Wisconsin's repositioning as a state with favorable rates for economic development to one with disadvantageous commercial and industrial rates. But such explanations should not constitute an excuse. The "externalities" noted in Draft SEA 2022 such as environmental compliance costs and minimal load growth are ones that apply to Illinois in no small measure and to many other states. Wisconsin utility

⁸ Data used in the preparation for all the illustrations included in these comments are from the U.S. Energy Information Administration.

generation investment is heavily concentrated in coal-fired assets investment that face major competitive challenges in the electricity market from attractively priced natural gas. Further, utility capacity is well beyond reserve requirements.

The traditional approach to regulating vertically integrated monopoly utilities places most of the business risk on consumers rather than on investors. This is in stark contrast to competitive electricity markets in which these risks are largely borne by the parties that can best manage them – investors and management in the generation, supply marketing and price hedging sectors. In competitive markets customers of various types and sizes can make their own decisions as to how much risk to bear or to hedge.

The question for Wisconsin is whether customers should bear the bulk of the risk in a world of highly uncertain technology, fuel, financial, economic and environmental conditions. ILEPA has found that competitive markets do a far better job of apportioning risk and reward than do regulated monopolies. The Draft SEA 2022 should be revised with respect to four important areas: Strategic Assessment, Effective Competition, Mitigation and Innovation.

STRATEGIC ASSESSMENT

ILEPA urges the Commission to more fully reflect in the substance of the Final SEA the meaning of the words “Strategic Assessment.” The Draft SEA 2022 provides a valuable description of current conditions and trends as well as a compilation of expectations based on data provided by various entities. However, the report is not strategic in the sense of offering a set of goals aimed at material improvement and an outline of a plan to achieve those goals. The Final SEA 2022 should, at minimum, set forth a general, overarching approach that will

seriously address the disadvantageous electricity pricing situation Wisconsin confronts. The Commission is the primary agency in Wisconsin State Government that possesses the expertise and authoritative position to lead a strategic inquiry that examines the full range of options available.

Among the strategic options that ought to be considered is that of effective retail electric competition. Retail choice is operating well in other jurisdictions, including in neighboring Illinois. The competitive option should not be dismissed out of hand. Nor should there be acquiescence to an argument that the competitive option was considered and not pursued a decade and a half ago before the current unprecedented conditions developed. Understanding electricity customer choice is not dangerous knowledge to be avoided.

ILEPA understands that the undertaking we are recommending is one that will require more time than is available prior to the deadline for completion and submission of the Final SEA 2022. ILEPA also understands that Wisconsin's situation is one that cannot be addressed by the incremental measures touched on in the Draft SEA 2022. ILEPA therefore urges the Commission to state clearly in the Final SEA 2022 that over the coming two years, in preparation for SEA 2024, the Commission intends to promptly issue an invitation to all interested parties to participate in an open, complete and ongoing review of the competitive retail option for Wisconsin. Doing so will make clear that the Commission is serious about seeking ways to remedy rather than merely "mitigate" Wisconsin's disadvantageous electricity rate situation.

EFFECTIVE COMPETITION

ILEPA urges the Commission to significantly expand the scope of the Strategic Assessment. As the Commission correctly notes, the statute does not define “effective competition” in directing the Commission to “Assess the extent to which effective competition is contributing to a reliable, low-cost and environmentally sound source of electricity for the public.” However, the Commission has chosen to limit its inquiry in the Draft SEA 2022 to wholesale competition in MISO. This artificial and narrow constraint necessarily results in the Draft SEA 2022 failing to explicate the adverse impact on Wisconsin electricity customers of a lack of effective competition due to the absence of retail customer choice of electric supplier.

ILEPA strongly believes the lack of effective competition at the retail level is a central feature of Wisconsin’s disadvantageous situation. Rate-based generating capacity of Wisconsin utilities is well beyond reserve requirements but is paid for by captive retail customers and paid for at prices well above the value that the same capacity would be accorded in the competitive wholesale market. Retail customer choice is not a speculative, untried option for the electricity industry. Wisconsin is one of just a few states in the northeastern tier of the United States adhering to vertical monopoly, along with Indiana, Vermont and Michigan (which allows only ten percent of retail load to be served competitively). The majority of states in this large region operate with competitive retail markets that include competitively procured supply by utilities as default providers.

It is important that the Commission lead an inquiry into the competitive option. Doing so does not represent a decision to move to customer choice but, rather, a decision to provide a venue for consideration of alternatives to the *status quo*. The commencement of an inquiry into

effective competition will attract the formidable intellectual resources and reservoir of experience available in Wisconsin and in other states, including those with competition to address and increasingly serious problem for Wisconsin. The Commission should welcome such debate as it ultimately would foster discussion and analysis of the best strategies and mechanisms in order to again return Wisconsin to a position of relative electric rate advantage as it once enjoyed.

MITIGATION

The Draft SEA 2022 repeats a commitment made in the prior three SEAs, all in nearly identical language:

The Commission continues to investigate ways to mitigate electric rate increases to ensure Wisconsin remains competitive in a global marketplace.

This formulation requires revision because it implies acceptance of the idea of inexorable, never-ending rate increases. The competitive model does not accept this inevitability. Rather, it is a supply and demand model in which customers and investors respond to price signals. In contrast to the vertical monopoly arrangement for electricity that seems to bring with it an expectation of ongoing rate increase, leaving the Commission with the task of mitigation.

An inquiry into the competitive option for Wisconsin would almost certainly reveal that average prices would fall from their current elevated levels if capacity were appropriately valued in the MISO capacity market and if the impact of low natural gas prices were more fully reflected in prices.

Wisconsin has already recognized that merits of customer market access in the natural

gas sector. Large numbers of commercial and industrial customers make gas purchasing decisions in a dynamic market place. Gas prices today are low in response to significant supply increases resulting from the shale gas revolution. This is as it should be in any well-functioning market. ILEPA members advise many Wisconsin natural gas customers and can confidently assert that the competitive model for natural gas is consistent with the Commission's goal of helping to ensure that Wisconsin remains competitive in a global marketplace.

An inquiry into the competitive options would provide an opportunity for well-known firms with headquarters or facilities in Wisconsin to provide information about their experiences as electricity retail choice customers in Illinois and other competitive states.

The record is clear enough that the regulated vertical monopoly model has put Wisconsin customers in the position of paying prices for electricity that are largely disconnected from the supply and demand conditions. Illustration 6 in the Appendix shows that while Wisconsin and Illinois have experienced similarly flat load between 2008 and 2015, All-Sector average prices in Illinois have trended downward while prices in Wisconsin have trended upward.

Illustrations 7 through 10 in the Appendix show the relative behavior of averages prices for residential, commercial and industrial customer classes in Wisconsin and Illinois under similar flat load conditions. ILEPA suggests that the divergence of prices in the two states is largely a function of the reliance on markets in Illinois and the reliance on vertical monopoly in Wisconsin.

ILEPA urges the Commission to adopt a more strategically affirmative approach and commit itself in the Final SEA 2022 to

investigate ways to reduce electric rates or when rate increases are unavoidable to mitigate such increase in order to ensure that Wisconsin remains competitive in a global marketplace.

INNOVATION

The Draft SEA 2022 identifies several “innovative” rate options recently approved by the Commission or that have been in place for a number of years, such as time-of-use rates.⁹ Among those of recent vintage cited are those aimed at promoting “economic development.” ILEPA is not critical of these various options but points out that they are very much at the margins and are incapable of addressing the issues across all customer segments. Nor are they especially innovative when compared to customer opportunities in competitive markets.

Importantly, these economic development rates are a tacit admission, by the petitioning utilities themselves, that regulated monopoly rates in Wisconsin are above those that would prevail under open access to the regional power marketplace by customers. In contrast to customer choice, the rate options regarded as innovative for Wisconsin are limited and restricted in application to a small number of customers. Further, even those few customers with access to the innovative rate options would experience far greater benefit if allowed access to the market for all of their electric supply requirements.

⁹ Draft SEA 2022, p34

A central problem in rate making in Wisconsin and in other vertical monopoly states is that there is little cost and price transparency. The bundling of rates for delivery with generation service obscures rather than clarifies. Competitive states have proven that delivery and generation can be unbundled. Wisconsin has already proven that it can unbundle transmission from distribution and generation. Delivery is an inherently monopoly service at this point while generation is inherently competitive, as is essentially acknowledged in the Draft SEA 2022 in its section on Effective Competition¹⁰ and by the laudable inclusion for the first time of distributed energy resources information.¹¹ Customers at all levels find it difficult, if not impossible, to figure out from bundled rates what the costs are for distinct services.

Even some who are not advocates of competitive retail choice have been coming to the conclusion that unbundling of delivery and generation in utility rates – even under the monopoly model – is the correct approach.¹² Unbundling also has the benefit of facilitating discussion of the question of fixed monthly charges for electricity services. Under the monopoly model flat load is exerting upward pressure on regulated rates. In competitive states this upward pressure is largely confined to delivery services, with generation experiencing downward pressure. In monopoly states the pressure is upward on bundled rates, including generation. Customers should be allowed to know more about the impact on pricing of externalities such as flat load, surplus generating capacity, environmental regulation and loss of

¹⁰ Draft SEA 2022, p8

¹¹ Draft SEA 2022, p35

¹² See the recommendations section of “Retail Choice in Electricity: What Have We Learned in 20 Years?” by Mathew J. Morey and Laurence D. Kirsch for the Electricity Markets Research Foundation, http://electricmarketsresearchfoundation.org/uploads/3/4/4/6/34469793/retail_choice_in_electricity_for_emrf_final.pdf

load to alternatives such as distributed resources. The greater the transparency into these elements, the better equipped the customer and other market participants can effectively respond to externalities.

In competitive markets, such as Illinois, customers not only have access to the market but also can arrange with competitive suppliers a variety of service terms that help achieve an optimal combination of price, certainty and flexibility for the individual customer.

As smart meters become ubiquitous in Wisconsin, as elsewhere, large amounts of information will be created that customers, if allowed to do so, could use to increase efficiency, improve their load patterns and to save money. However, under the monopoly model, if maintained by Wisconsin, both residential and business customers will necessarily be restricted in making full use of smart meter information. Rigid tariffs and choices limited by their captive conditions will mean that there will be significant challenges in returning to customers the value commensurate with the cost of smart meter deployment.

In competitive supply markets, business customers enjoy a myriad of product options and services from the marketplace. For example, business customers often seek to match the length of their retail contracts to the needs and budget constraints of their respective businesses. In addition to the opportunity for multi-year or shorter term contracts, business customers can build portfolios of fixed and variable prices in “layers”. Furthermore, competitive markets are generally able, according to customer preferences, to fix or pass-through the several specific components of electric supply service including energy, capacity, transmission and ancillary services. Traditional monopoly regulation usually produces bundled rates that are incapable of

informing customers about the price and volatility of any of these given supply related components. Business customers in competitive markets have also seen a large variety of demand response programs proliferate, some in conjunction with and some separate from their retail supplier's supply contract.

The grid is evolving into a more complex, integrated structure. Energy solutions are now less centralized and are increasingly “distributed” – that is to say, on-site, local, and tailored to the customer's requirements. Customers are becoming their own energy managers and suppliers. In competitive markets, customers are being introduced to a variety of distributed energy resources and technologies to allow them to manage their total energy profile and to achieve their resiliency and sustainability objectives. Competitive markets can more promptly and effectively provide access to non-commodity offerings of solar, fuel cells, micro turbines, battery storage and other ‘distributed energy’ technologies along with creative financing options that may be in tandem with or in addition to their retail supply contract.

In retail choice states, opportunities for innovative service offerings are not confined solely to large commercial and industrial customers. A number of states (including Illinois, Ohio, Massachusetts, New York and New Jersey) enable whole communities to band residential customers together to secure supply and other services from competitive suppliers that are defined by their own community's unique needs and requirements in a program generally referred to as municipal aggregation. Residential and small business customers also benefit from various supply related products and services such as access to renewables, price protection and/or budget certainty options as well as pre-paid energy plans, many of which are often available under a variety of prices and terms. Residential and small business customers in

many competitive states also can combine their commodity service with other non-commodity services such as HVAC & appliance repair programs, information services and/or demand response programs.

The table below provides examples of commodity and non-commodity product and service options.

	Commodity Related Products	Non-Commodity Related Products
Business Customers	<ul style="list-style-type: none"> - Contract length variability - Fixed/Variable proportions - Fixed/Variable components 	<ul style="list-style-type: none"> - Demand response products - Distributed Energy: Solar, fuel cells, microturbines, battery storage - Financing options
Residential Customers	<ul style="list-style-type: none"> - Contract length - Budget certainty - Pre-Paid energy 	<ul style="list-style-type: none"> - Home Services - Demand response products - Municipal Aggregation programs

RECOMMENDATIONS

ILEPA urges the Commission in the Final SEA 2022 to adopt an affirmative approach with

respect to innovative rates that will benefit customers. As a strategic document, the SEA should be forward looking. In this respect, ILEPA recommends that the Commission include in the Final SEA 2022 the following:

- A commitment to development of a strategic plan aimed at improving Wisconsin's disadvantageous electricity rate position that has developed over a longer period of time;
- A commitment to invite interested parties, especially commercial and industrial customers, to bring innovative rate options to the Commission's attention outside the confines of special tariff proceedings or the rate design portions of general rate cases;
- A commitment to commence an inquiry into the unbundling of pricing for delivery and generation services in order to provide customers with greater transparency and more accurate price signals;
- A commitment to address the extent to which service options routinely available to commercial, industrial and residential customers in competitive retail states would be beneficial to such customers in Wisconsin if made available; and
- A commitment to launch an inquiry into opportunities at the residential and small business level for customers to maximize the utilization of data that will be produced by advanced meter infrastructure in the coming years.

CONCLUSION

ILEPA appreciates the difficulty facing the Commission in addressing a problem long in the making, with roots in policies and processes chosen many years before any of the existing Commission members, most Wisconsin legislators, most senior management of utilities and major commercial and industrial customers assumed leadership positions. However, neither inherited causes nor effects need to be accepted as permanent, especially when the conditions

and environment that framed those prior decisions have changed in such basic ways.

The Final SEA 2022 is an opportunity to address genuinely strategic issues with an eye toward improvement of Wisconsin's relative electric price position rather than acceptance of ongoing deterioration.

Respectfully submitted,

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APPENDIX

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COMMENTS OF THE ILLINOIS ENERGY PROFESSIONALS ASSOCIATION
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ILLUSTRATION 1 - WISCONSIN & ILLINOIS EXCHANGED RELATIVE ELECTRICITY PRICE POSITIONS 1997-2015

1997: PRICES HIGHER IN ILLINOIS THAN WISCONSIN

Class	WI ¢/kWh	IL ¢/kWh	IL ¢/kWh Difference	IL % Difference
Residential	6.88	10.43	+3.55	+51.6%
Commercial	5.60	7.93	+2.33	+41.6%
Industrial	3.72	5.29	+1.57	+42.2%
All-Sector	5.22	7.71	+2.49	+47.7%

2015: PRICES HIGHER IN WISCONSIN THAN ILLINOIS

Class	WI ¢/kWh	IL ¢/kWh	WI ¢/kWh Difference	WI % Difference
Residential	14.38	12.49	+1.89	+15.1%
Commercial	11.03	8.90	+2.13	+23.9%
Industrial	7.77	6.35	+1.42	+22.4%
All-Sector	10.93	9.28	+1.65	+17.8%

ILLUSTRATION 2 – WISCONSIN RANKS HIGHEST & ILLINOIS LOWEST AMONG STATE AVERAGE 1997-2015 RESIDENTIAL PRICE INCREASE

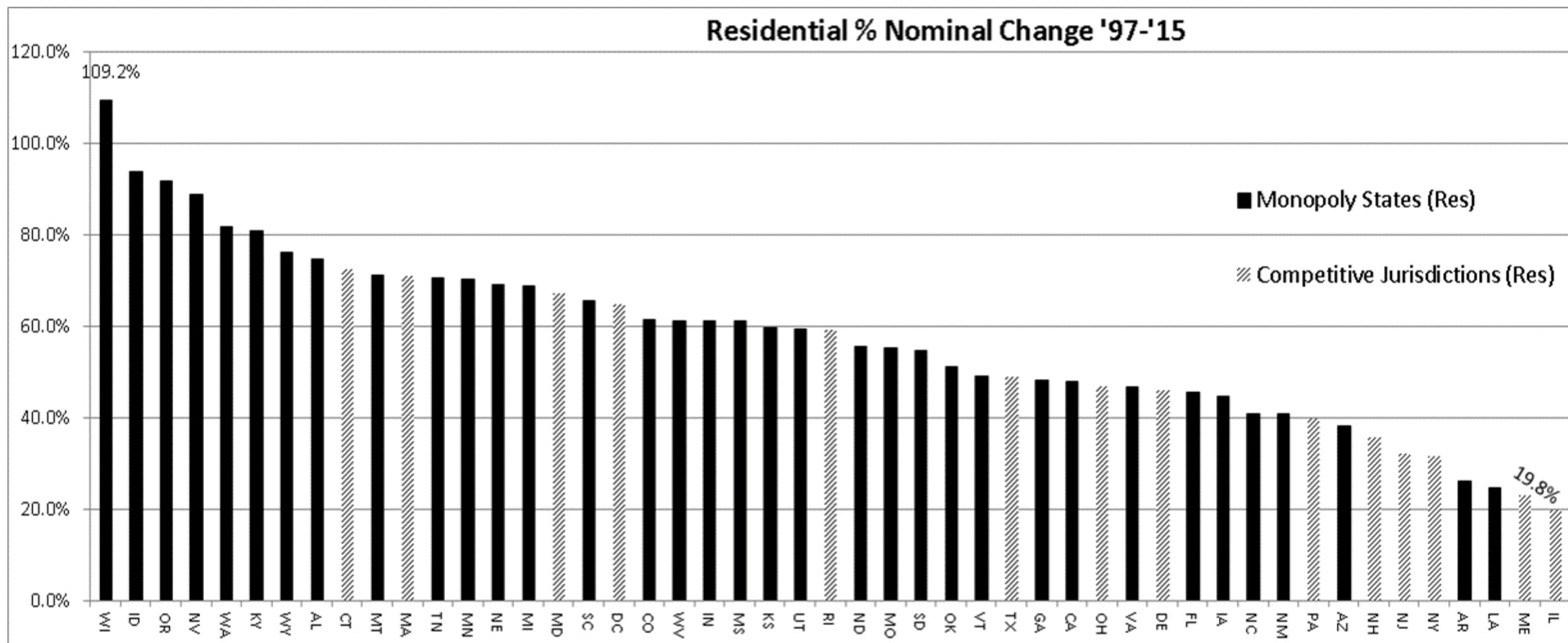


ILLUSTRATION 3 – WISCONSIN RANKS HIGHEST & ILLINOIS LOWEST AMONG STATE AVERAGE 1997-2015 COMMERCIAL PRICE INCREASE

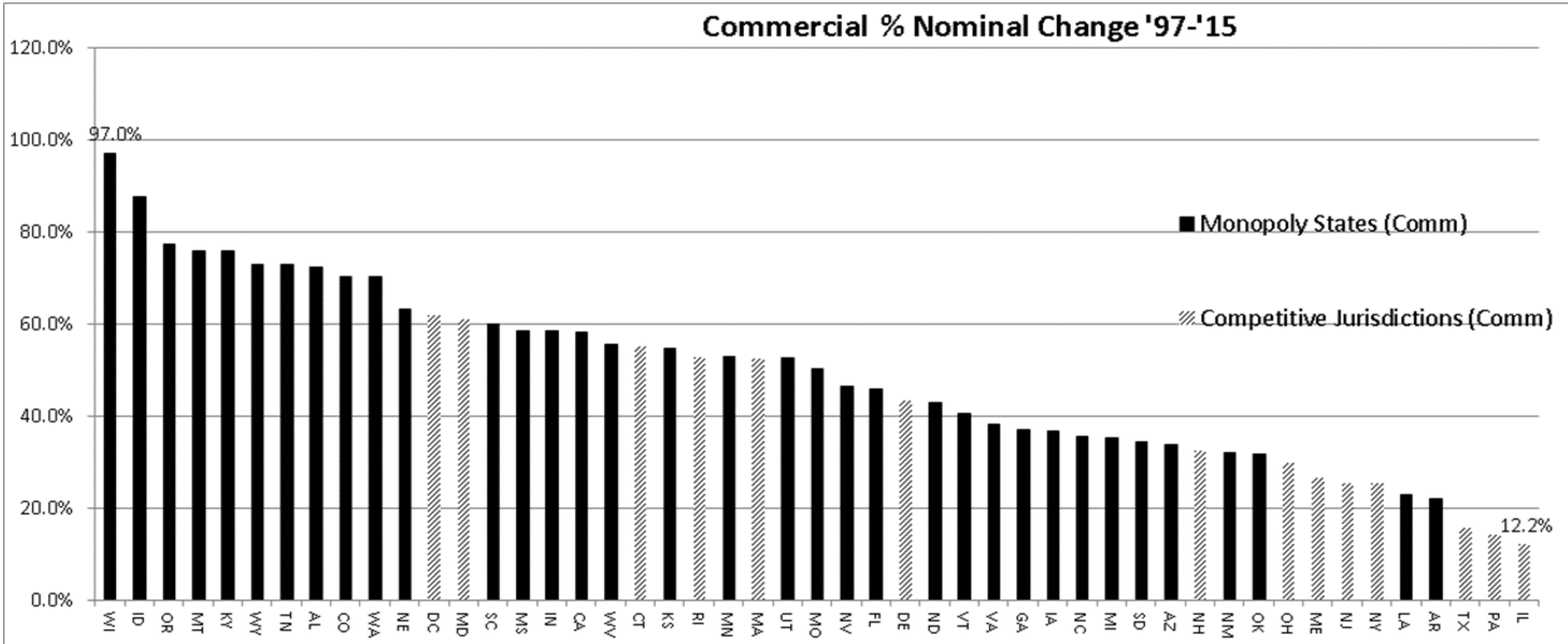


ILLUSTRATION 4 – WISCONSIN RANKS 2ND HIGHEST & ILLINOIS LOWEST AMONG STATE AVERAGE 1997-2015 INDUSTRIAL PRICE INCREASE

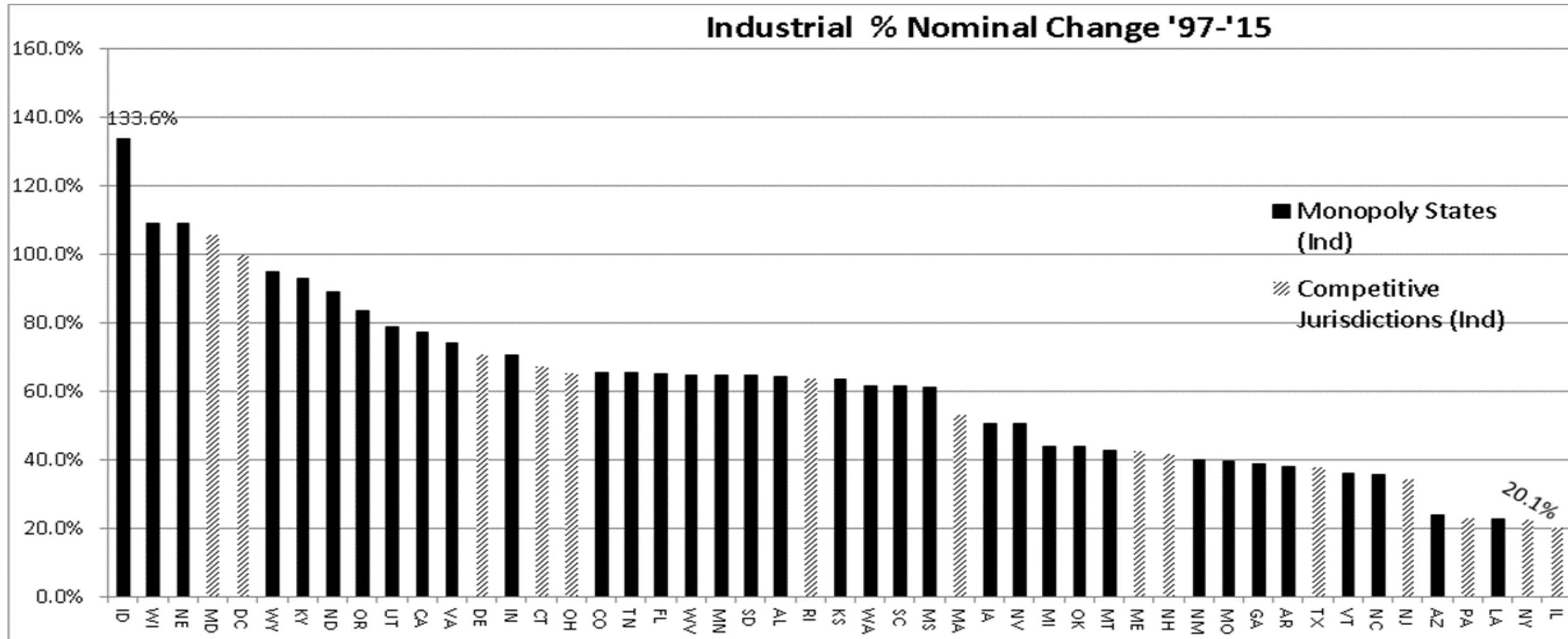


ILLUSTRATION 5 – WISCONSIN RANKS HIGHEST & ILLINOIS LOWEST AMONG STATE AVERAGE 1997-2015 ALL-SECTOR PRICE INCREASE

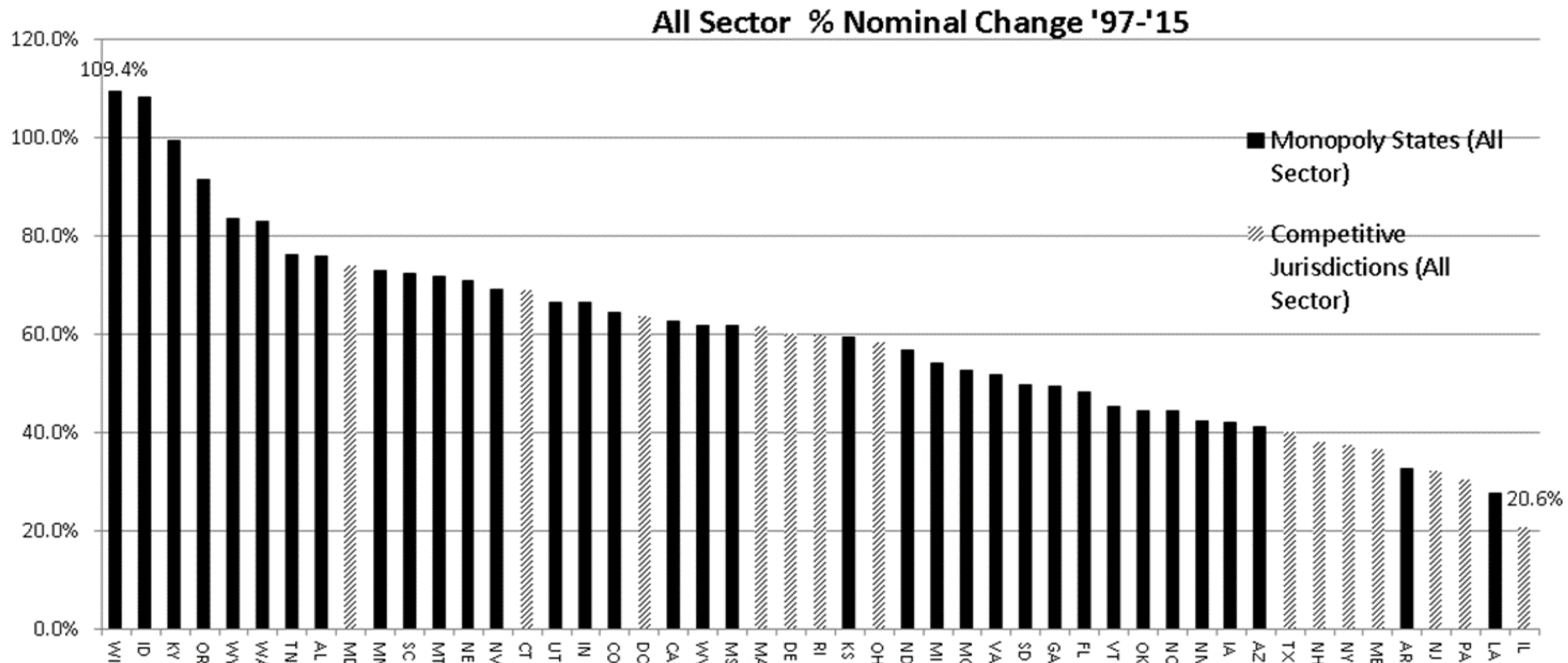


ILLUSTRATION 6 – AVERAGE INDUSTRIAL PRICES 2008-2015 IN WISCONSIN & ILLINOIS REACT DIFFERENTLY TO LOW GROWTH

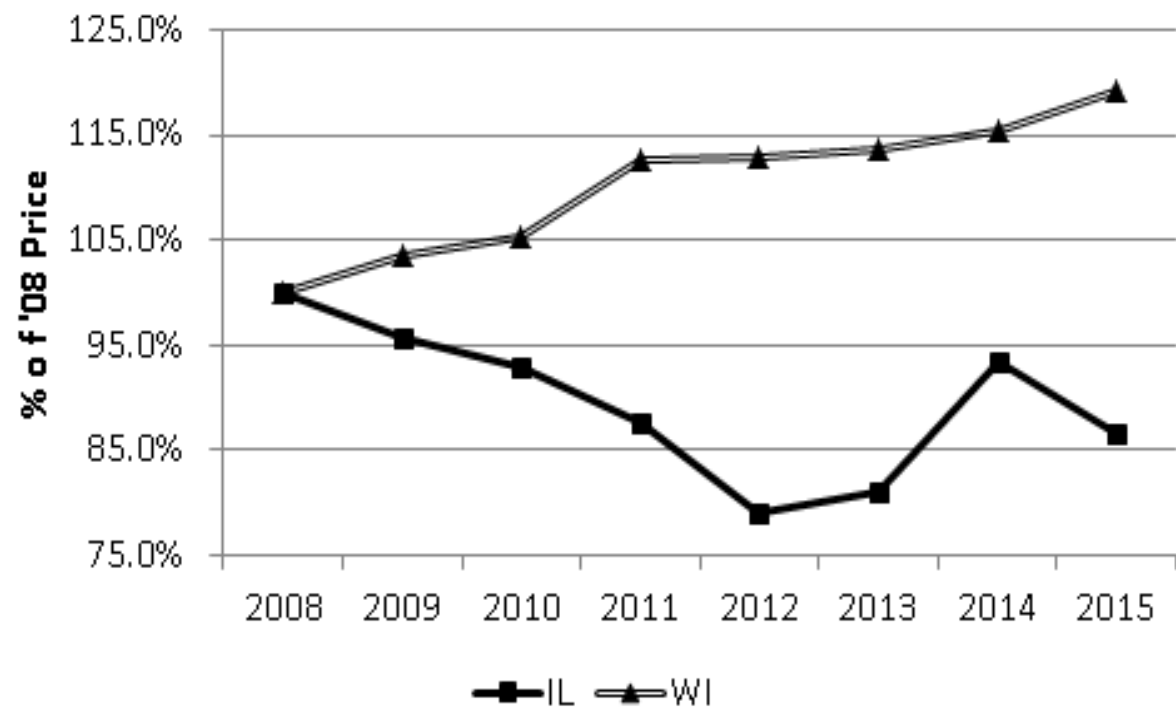
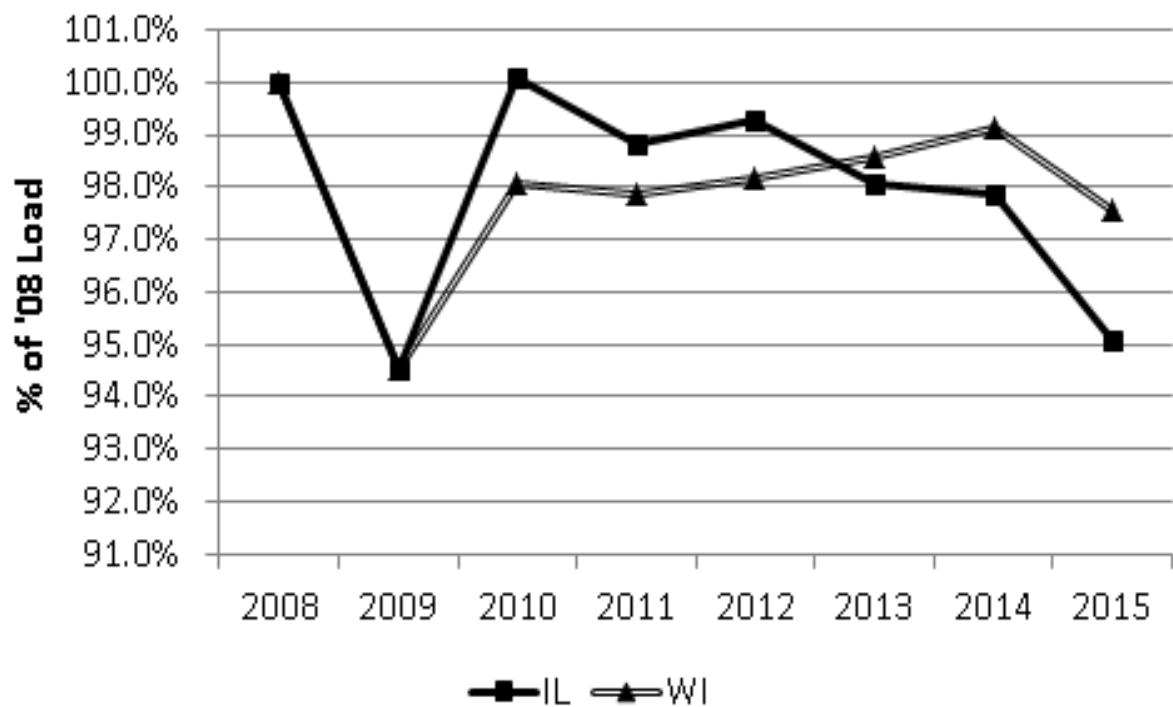


ILLUSTRATION 7 – WISCONSIN & ILLINOIS RESIDENTIAL NOMINAL & PERCENT PRICE CHANGE 2008-2015

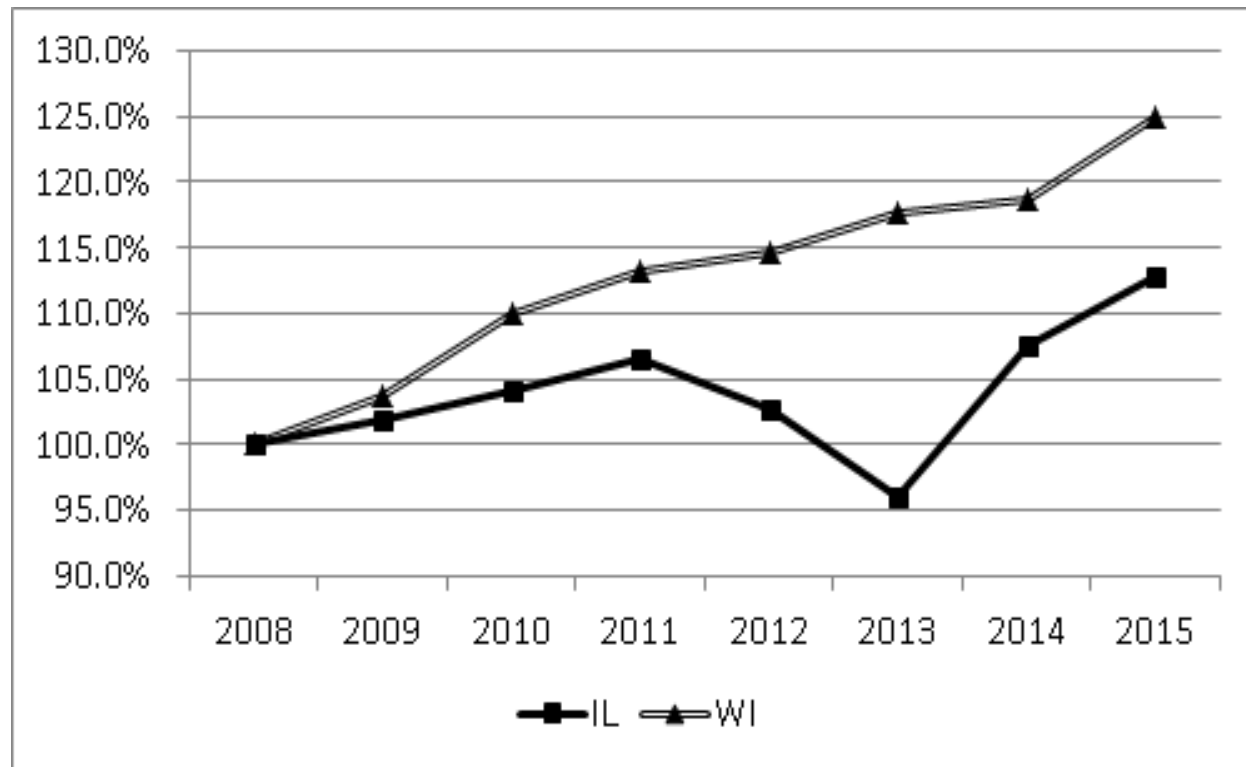
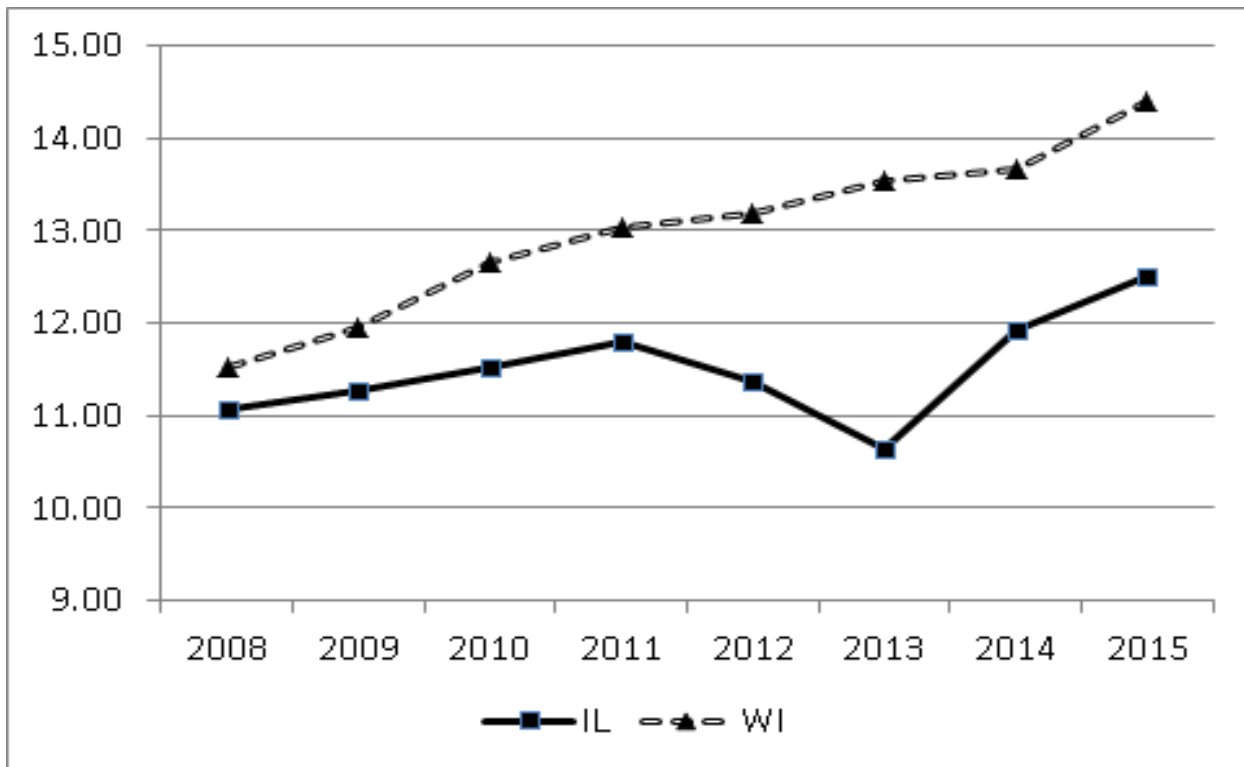


ILLUSTRATION 8 – WISCONSIN & ILLINOIS COMMERCIAL NOMINAL & PERCENT PRICE CHANGE 2008-2015

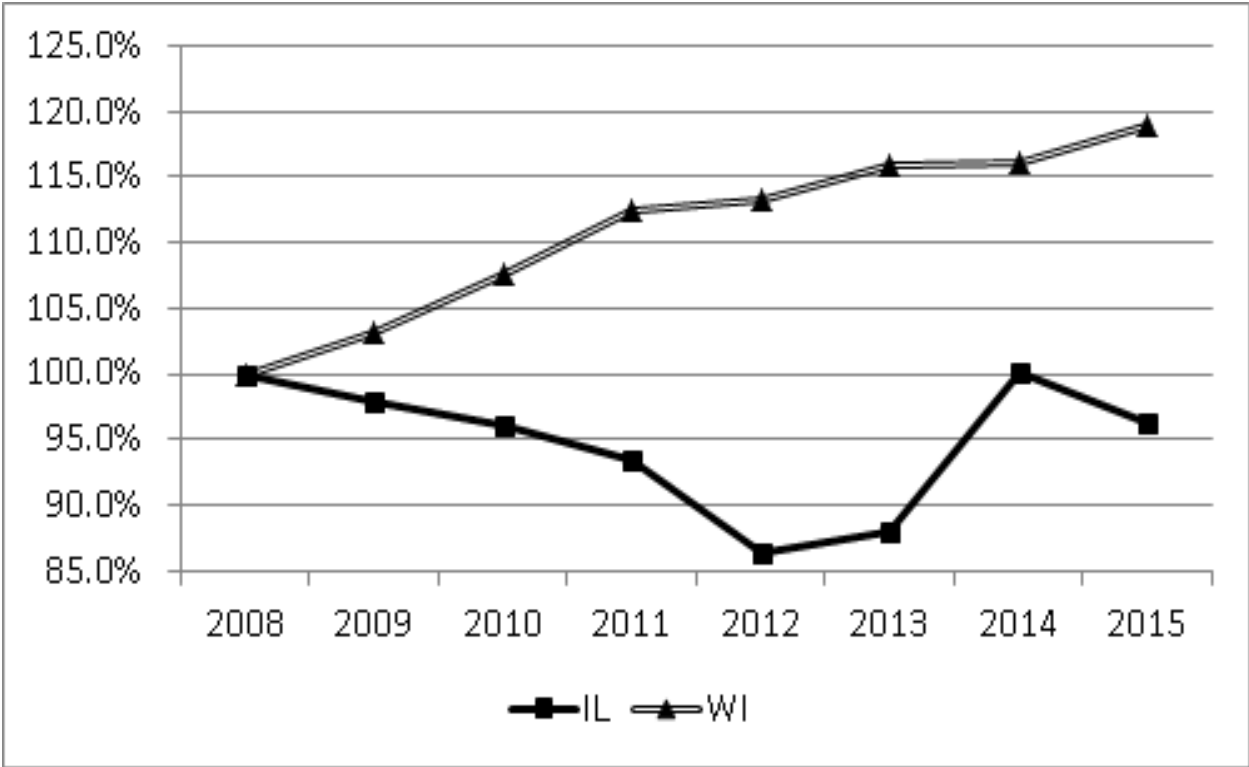
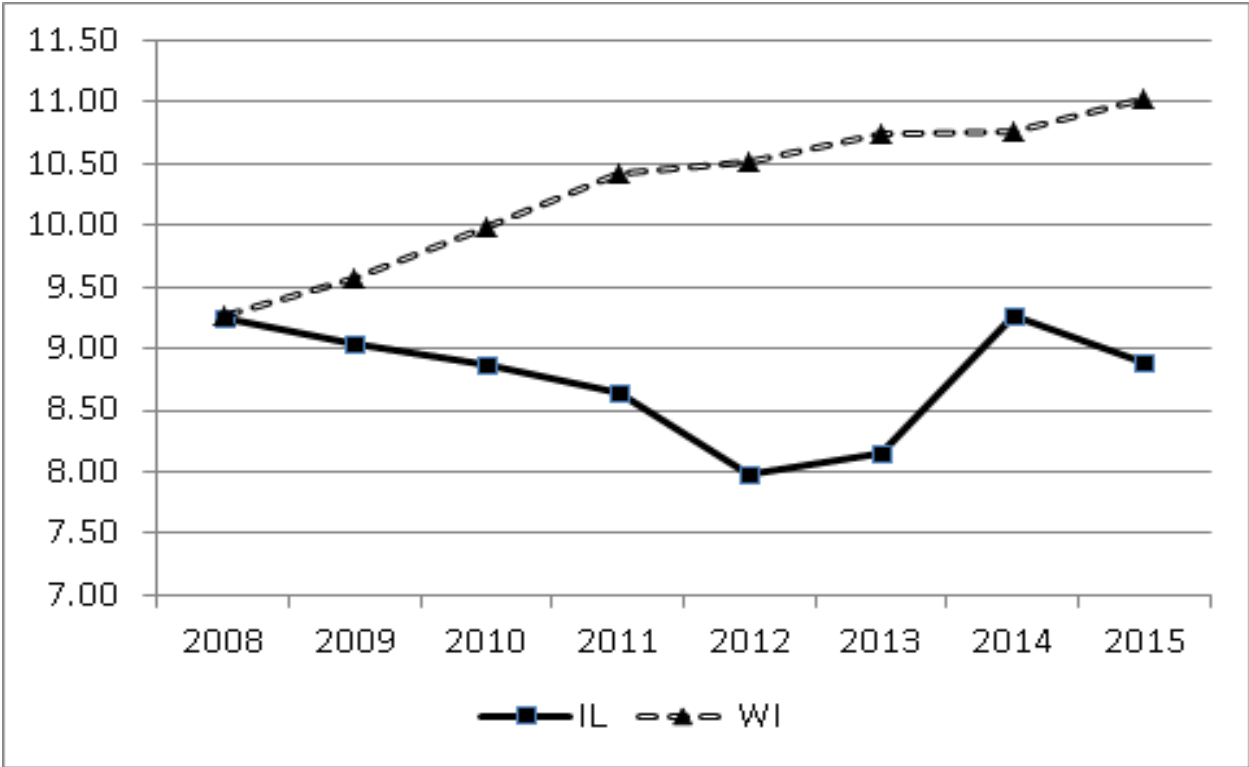


ILLUSTRATION 9 – WISCONSIN & ILLINOIS INDUSTRIAL NOMINAL & PERCENT PRICE CHANGE 2008-2015

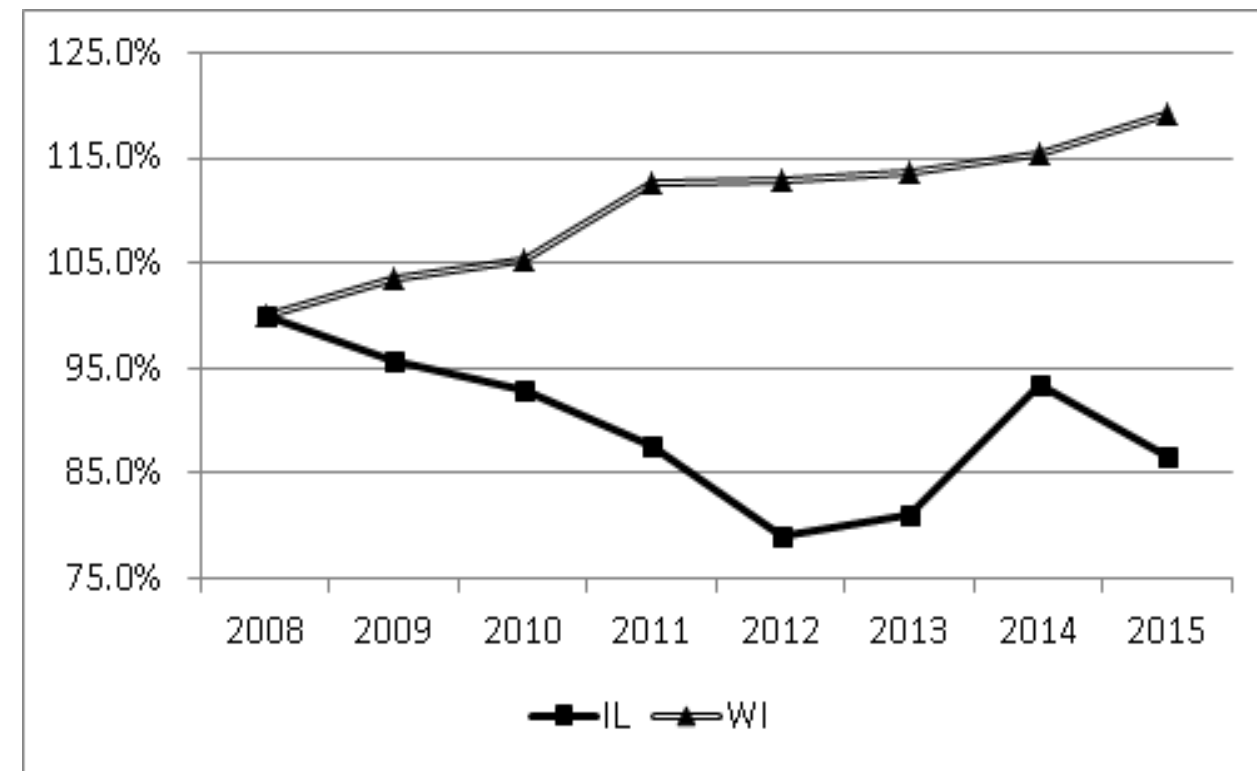
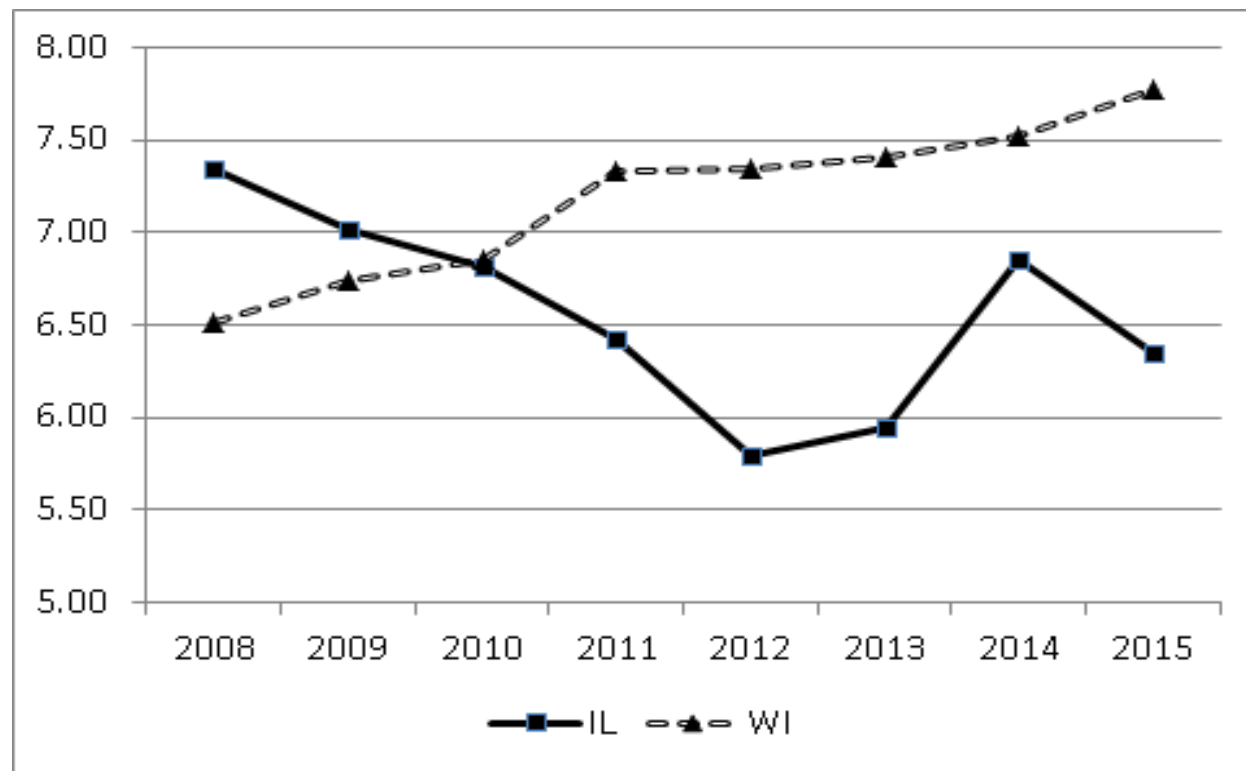


ILLUSTRATION 10 – WISCONSIN & ILLINOIS ALL-SECTOR NOMINAL & PERCENT PRICE CHANGE 2008-2015

